

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan Area Educational Service Agency

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Area Educational Service Agency, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan Area Educational Service Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Area Educational Service Agency as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2008, on our consideration of Allegan Area Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 26 through 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan Area Educational Service Agency's basic financial statements. The additional information on pages 31 and 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mamay, Costenisan & Ellis, P.C.

November 24, 2008

**Allegan Area Educational Service Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008**

As management of the Allegan Area Educational Service Agency, we offer readers of the Service Agency's financial statements this narrative overview and analysis of the financial activities of the Service Agency for the fiscal year ended June 30, 2008.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Service Agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Service Agency's revenue and expenditures by program.

Financial Highlights

Our financial statements provide these insights into the results of this year's operations.

- The assets of the Service Agency exceeded its liabilities at the close of the most recent fiscal year by \$10,813,362 (*net assets*). Of this amount, \$5,204,164 (*unrestricted net assets*) may be used to meet the Service Agency's ongoing obligations for general Service Agency programs.
- The Service Agency's total net assets increased by \$1,543,402.
- As of the close of the current fiscal year, the Service Agency's governmental funds reported combined ending fund balances of \$5,210,955, an increase of \$1,213,843 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the Service Agency's operating funds (general fund, special education fund, technical education fund and cooperative programming fund) was \$5,123,373 or 21.7% of the total expenditures of these operating funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Service Agency's basic financial statements. The Service Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Service Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Service Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Service Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Service Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the Service Agency that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Service Agency include instruction, support services, community service and transfers to locals and other services. The Service Agency has no business-type activities as of and for the year ended June 30, 2008.

The government-wide financial statements can be found on pages 2 and 3 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Service Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Service Agency fall within the governmental fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Service Agency's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Service Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Service Agency maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, career technical education fund, and cooperative programming fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Service Agency adopts annual appropriated budgets for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4 through 7 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 9 through 24 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the Service Agency's major funds. Required supplementary information can be found on pages 26 through 29 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the supplementary information. Combining fund statements can be found on pages 31 and 32 of this report.

Our auditor has provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

Government-wide Financial Analysis

The Service Agency's net assets were \$10,813,362 at June 30, 2008. Of this amount, \$5,204,164 was unrestricted, a increase of \$1,215,009 from last fiscal year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Service Agency's ability to use those net assets for day-to-day operations.

The following table shows the Service Agency's net assets in 2008 and 2007.

Service Agency's Net Assets

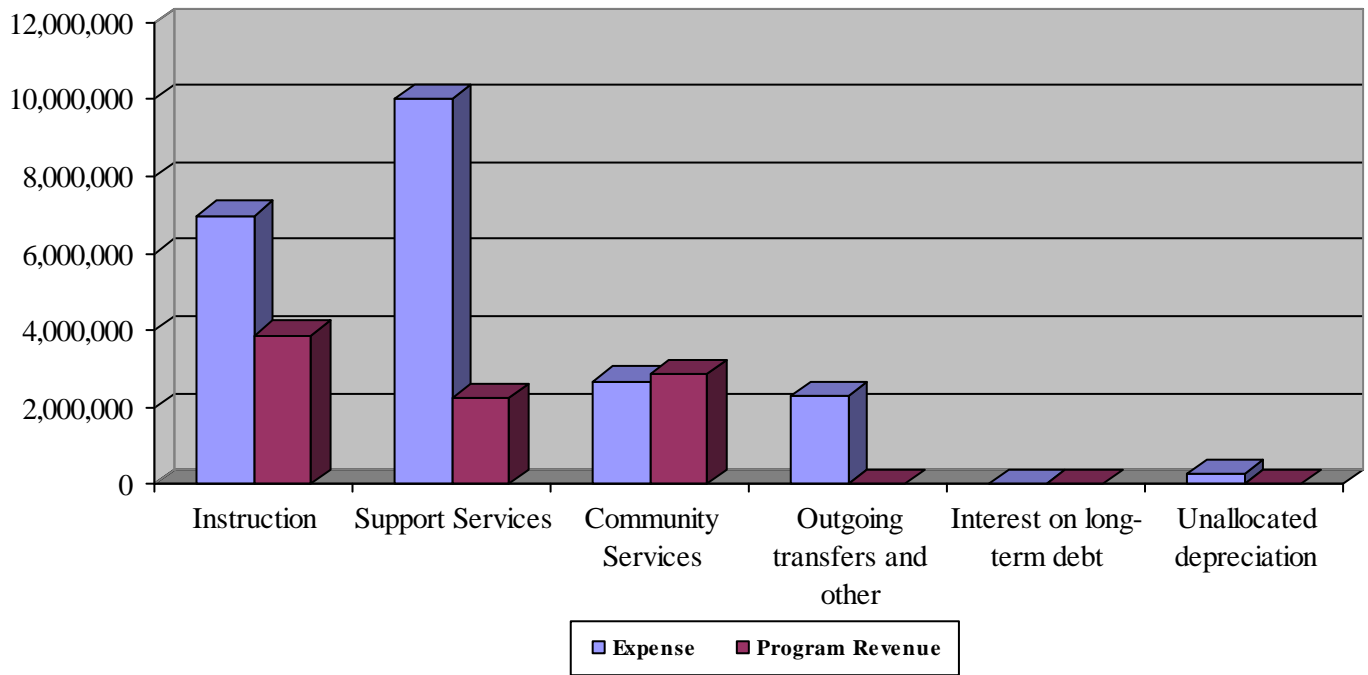
Allegan Area Educational Service Agency		
	2008	2007
Current assets	\$ 7,246,792	\$ 6,581,690
Noncurrent assets	6,061,096	5,885,272
Total assets	13,307,888	12,466,962
Current liabilities	2,241,567	2,889,043
Noncurrent liabilities	252,959	307,959
Total liabilities	2,494,526	3,197,002
Net Assets:		
Invested in capital assets, net of related debt	5,609,198	5,280,805
Unrestricted	5,204,164	3,989,155
Total net assets	\$ 10,813,362	\$ 9,269,960

**Allegan Area Educational Service Agency
Service Agency's Changes in Net Assets**

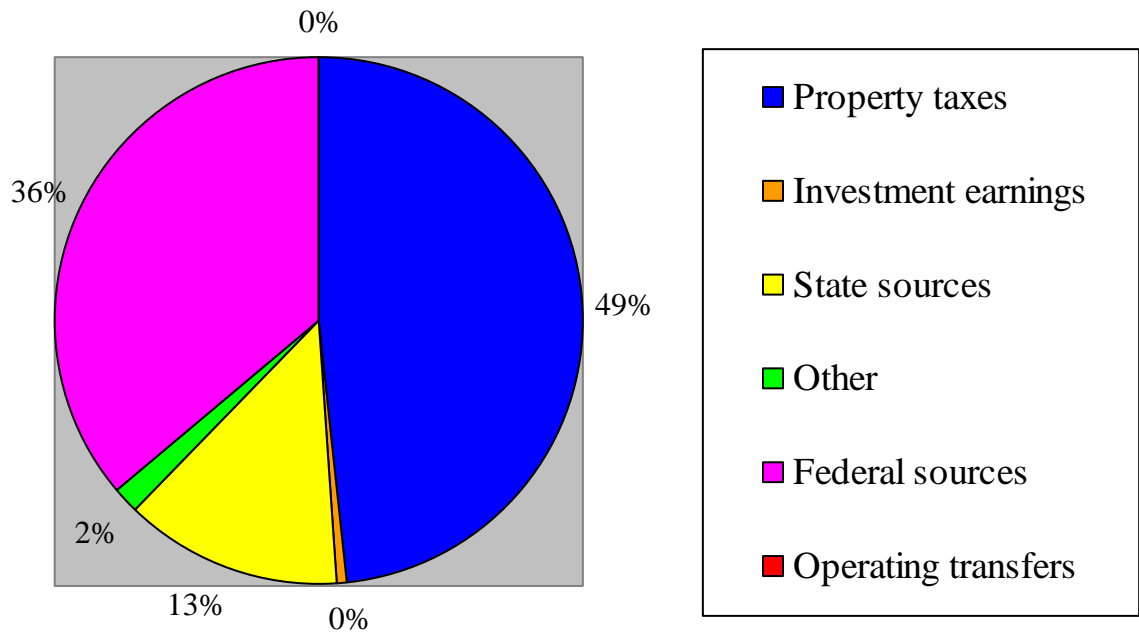
	Governmental Activities	
	2008	2007
Revenue:		
Program revenue:		
Charges for services	\$ 647,073	\$ 102,405
Operating grants	8,348,014	9,789,501
General revenue:		
Property taxes	11,189,366	10,322,368
Investment earnings	96,915	185,210
State sources	3,086,854	1,744,679
Other	420,334	1,313,303
Total revenue	23,788,556	23,457,466
Expenses:		
Instruction	6,992,133	5,557,090
Supporting services	10,010,048	11,907,298
Community services	2,685,127	3,292,216
Outgoing transfers and other	2,280,360	2,664,757
Interest on long-term debt	10,030	14,342
Unallocated depreciation	267,456	227,132
Total expenses	22,245,154	23,662,835
Increase (decrease) in net assets	1,543,402	(205,369)
Net assets, beginning of year	9,269,960	9,475,329
Net assets, end of year	\$ 10,813,362	\$ 9,269,960

Governmental Activities. Net assets increased \$1,543,402. The key element of this increase was because state aid revenue for transportation services was received in the 2007-08 school year for expenses incurred in 2006-2007.

**Expenses and Program Revenues – Governmental Activities
Year ended June 30, 2008**



**Revenues by Source – Service Agency Activities
Year ended June 30, 2008**



Major Governmental Funds Budgeting and Operating Highlights

The Service Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, technical education fund, and cooperative programming fund.

During the fiscal year ended June 30, 2008, the Service Agency amended the budgets of these major governmental funds three times.

General Fund - The general fund actual revenue was \$2.81 million. That amount is below the original budget estimate of \$2.94 million and above the final budget amendment of \$2.77 million. The variance between the actual revenue and final budget was the result of higher than expected property tax collections and higher than expected state aid for MSRP.

The actual expenditures of the general fund were \$2.87 million, which is below the original budget of \$3.29 million and below the final amendment of \$3.08 million. The variance between the actual revenue and final budget was due to information technology costs that were budgeted for but never spent for fiber that is waiting to be installed. The variance also included instructional costs that were budgeted for but never spent.

The general fund had total revenues of \$2.81 million and total expenditures of \$2.87 million with an ending fund balance of \$1.28 million.

Special Education Fund - The special education fund actual revenue was \$14.62 million. That amount is above the original budget of \$13.36 million and below the final amendment of \$14.68 million. The variance was the result of a decrease in reimbursements which are variable year-to-year.

The actual expenditures of the special education fund were \$13.24 million, which is below the original budget of \$13.31 million and below the final amendment of \$13.36 million.

The special education fund had total revenue of \$14.62 million and total expenditures of \$13.24 million with an ending fund balance of \$2.46 million.

Technical Education Fund - The technical education fund actual revenue was \$4.81 million. That amount is above the original budget of \$4.8 million and below the final amendment of \$4.85 million. The variance was the result of lower than expected state aid allocation for enrollment.

The actual expenditures were \$4.76 million, which is above the original budget of \$4.67million and above the final amendment of \$4.64 million. The variance was the result of higher than expected program, general administration, business, and operation and maintenance expenditures.

The technical education fund had total revenue of \$4.81 million and total expenditures of \$4.76 million with an ending fund balance of \$1.38 million.

Cooperative Programming Fund - The cooperative programming fund actual revenue was \$2.67 million. That amount is below the final amendment of \$2.94 million and above the original budget estimate of \$2.5 million. The variance was the result of grant funds that were not received.

The actual expenditures of the cooperative programming fund were \$2.69 million, which is below the final budget amendment of \$2.94 million and above the original budget of \$2.5 million. The variance was the result of grant funds that were not expended.

The cooperative programming fund had total revenue of \$2.67 million and total expenditures of \$2.69 million with an ending fund balance of \$0 million.

As noted earlier, the Service Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the Service Agency’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Service Agency’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Service Agency’s net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Service Agency. At the end of the current fiscal year, the total fund balance of the general fund was \$1,281,941. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total fund balance represent approximately 44.3% of total general fund expenditures and operating transfers out.

The fund balance of the Service Agency’s general fund decreased by \$162,107 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, and a portion of the executive administration and fiscal services of the Service Agency.

The special education fund had a total fund balance of \$2,458,610, which increased \$1,354,966 from the prior year. These resources are restricted for special education programs administered by the Service Agency and transfers to local service agencies for special education programs. The largest portion of this fund’s revenues come from property taxes while the largest expenditures are for the programs at Hillside Learning and Behavior Center and pupil support services to the local service agencies. Total fund balance represent approximately 18.6% of total special education fund expenditures.

The technical education fund has a total fund balance of \$1,382,822, which increased \$15,118 from the prior year. These resources are restricted for technical education purposes. The largest portion of this fund’s revenues come from property taxes while the expenditures are for the programs at the Technical Center.

The cooperative programming fund has a total fund balance of \$0, which decreased \$19,957 from prior year. The largest portion of this fund’s revenue comes from federal sources.

Capital Asset and Debt Administration

Capital Assets – At the end of fiscal year 2008, the Service Agency had \$10.89 million invested in land, buildings, and office and instructional equipment. Of this amount, \$5.0 million in depreciation has been taken over the years. The Service Agency has net capital assets of \$5.92 million.

Service Agency's Capital Assets
(Net of depreciation)
June 30, 2008

	2008	2007
Land	\$ 391,509	\$ 391,509
Buildings and improvements	8,754,087	8,365,177
Office and instructional equipment	1,748,671	1,621,732
Subtotal	10,894,267	10,378,418
Accumulated depreciation	4,977,110	4,709,654
Total	\$ 5,917,157	\$ 5,668,764

Additional information on the Service Agency's capital assets can be found in Note 5 of this report.

Long-term Debt- at the end of the current fiscal year, the Service Agency had a total bonded debt outstanding of \$307,959. Of this balance, \$132,959 is not a general obligation of the Service Agency and does not constitute an indebtedness of the Service Agency within any constitutional or statutory limitation, and is payable solely from state aid payments from the State of Michigan. The remaining balance of \$175,000 represents general obligation bonds of the Service Agency.

The Service Agency's total debt decreased by \$80,000 during the current fiscal year, with no new debt issuances. Additional information on the Service Agency's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the Service Agency was aware of existing circumstances that could affect its financial health in the future.

The Senate and House Fiscal Agencies recently released a report that State Aid revenue collections were below anticipated amounts. If in fact the State Aid budget finishes in a deficit, there is the possibility of a proration of state aid. State aid represents 13% of the Service Agency's revenue.

The Service Agency continues to borrow money for short-term cash flow purposes. This is an indication that the continued depletion of fund balance has had an effect on Service Agency finances. If this pattern should continue, the Service Agency will be forced to reduce expenditures by cutting services or search for new revenue sources.

Although the Service Agency faces the above mentioned challenges, it remains in good financial shape. The 21.8% fund balance provides safety against economic down turns and provides funds to start new programs and support current programs and services.

Requests for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Service Agency's finances and to demonstrate the Service Agency's accountability for the money it receives. If you have questions about this report or need additional information, contact Abby Lloyd, Director of Finance & Operations, Allegan Area Educational Service Agency, 310 Thomas Street, Allegan, Michigan 49010.

BASIC FINANCIAL STATEMENTS

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	Governmental activities
CURRENT ASSETS:	
Cash	\$ 1,859,731
Investments	2,527,155
Receivables:	
Accounts receivable	392,799
Interest receivable	5,504
Taxes receivable	25,995
Due from other governmental units	1,866,144
Local districts	71,969
Inventories	484,404
Prepaid expenditures	13,091
TOTAL CURRENT ASSETS	7,246,792
NONCURRENT ASSETS:	
Receivables from local districts	143,939
Capital assets	10,894,267
Less accumulated depreciation	(4,977,110)
TOTAL NONCURRENT ASSETS	6,061,096
TOTAL ASSETS	\$ 13,307,888
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 784,450
Accrued salaries and related items	1,272,449
Accrued interest	6,791
Deferred revenue	122,877
Current portion of long-term obligations	55,000
TOTAL CURRENT LIABILITIES	2,241,567
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	252,959
TOTAL LIABILITIES	2,494,526
NET ASSETS:	
Invested in capital assets, net of related debt	5,609,198
Unrestricted	5,204,164
TOTAL NET ASSETS	10,813,362
TOTAL LIABILITIES AND NET ASSETS	\$ 13,307,888

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 6,992,133	\$ -	\$ 3,878,730	\$ (3,113,403)
Support services	10,010,048	405,458	1,835,987	(7,768,603)
Community services	2,685,127	241,615	2,633,297	189,785
Outgoing transfers and other	2,280,360	-	-	(2,280,360)
Interest on long-term debt	10,030	-	-	(10,030)
Unallocated depreciation	267,456	-	-	(267,456)
Total governmental activities	\$ 22,245,154	\$ 647,073	\$ 8,348,014	(13,250,067)
General revenues:				
Property taxes, levied for general purposes				313,250
Property taxes, levied for special education				6,887,507
Property taxes, levied for technical education				3,988,609
Investment earnings				96,915
State sources				3,086,854
Other				420,334
Total general revenues				14,793,469
CHANGE IN NET ASSETS				1,543,402
NET ASSETS, beginning of year				9,269,960
NET ASSETS, end of year				\$ 10,813,362

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

		<u>Special revenue</u>			<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
		<u>General Fund</u>	<u>Special education fund</u>	<u>Technical education fund</u>	<u>Cooperative programming fund</u>	
ASSETS						
ASSETS:						
Cash and cash equivalents	\$ 726,490	\$ 503,044	\$ 630,197	\$ -	\$ -	\$ 1,859,731
Investments	951,980	697,747	877,428	-	-	2,527,155
Receivables:						
Property taxes receivable	465	10,154	15,376	-	-	25,995
Accounts receivable	98,177	170,240	75,047	19,174	30,161	392,799
Interest	2,073	1,520	1,911	-	-	5,504
Due from other governmental units	285,053	887,144	70,115	609,848	13,984	1,866,144
Due from other funds	-	1,265,157	-	-	59,641	1,324,798
Local districts	215,908	-	-	-	-	215,908
Inventories	-	-	484,404	-	-	484,404
Prepaid expenditures	13,091	-	-	-	-	13,091
TOTAL ASSETS	\$ 2,293,237	\$ 3,535,006	\$ 2,154,478	\$ 629,022	\$ 103,786	\$ 8,715,529
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 30,669	\$ 297,534	\$ 107,637	\$ 340,498	\$ 8,112	\$ 784,450
Accrued salaries and related items	267,615	711,167	252,006	37,440	4,221	1,272,449
Due to other funds	687,507	-	408,613	228,678	-	1,324,798
Deferred revenue	25,505	67,695	3,400	22,406	3,871	122,877
TOTAL LIABILITIES	1,011,296	1,076,396	771,656	629,022	16,204	3,504,574

See notes to financial statements

	Special revenue				Other nonmajor governmental funds	Total governmental funds
	General Fund	Special education fund	Technical education fund	Cooperative programming fund		
FUND BALANCES:						
Reserved for inventories	\$ -	\$ -	\$ 484,404	\$ -	\$ -	\$ 484,404
Reserved for prepaid expenditures	13,091	-	-	-	-	13,091
Unreserved:						
Designated for capital outlay	-	500,000	-	-	-	500,000
Designated for subsequent year expenditures	357,381	-	-	-	-	357,381
Undesignated	911,469	1,958,610	898,418	-	87,582	3,856,079
TOTAL FUND BALANCES	<u>1,281,941</u>	<u>2,458,610</u>	<u>1,382,822</u>	<u>-</u>	<u>87,582</u>	<u>5,210,955</u>
	<u>\$ 2,293,237</u>	<u>\$ 3,535,006</u>	<u>\$ 2,154,478</u>	<u>\$ 629,022</u>	<u>\$ 103,786</u>	<u>\$ 8,715,529</u>
Total governmental fund balances						\$ 5,210,955
Capital assets used in governmental activities are not financial resources and are not reported in the funds						
The cost of the capital assets is					\$ 10,894,267	
Accumulated depreciation is					<u>(4,977,110)</u>	
						5,917,157
Long-term liabilities are not due and payable in the current period and are not reported in the funds:						
Bonds payable						(307,959)
Accrued interest is not included as a liability in government funds, it is recorded when paid						<u>(6,791)</u>
Net assets of governmental activities						<u>\$ 10,813,362</u>

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

		<u>Special revenue</u>			Other	
	<u>General Fund</u>	<u>Special education fund</u>	<u>Technical education fund</u>	<u>Cooperative programming fund</u>	<u>nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES:						
Local sources:						
Property taxes	\$ 313,250	\$ 6,887,507	\$ 3,988,609	\$ -	\$ -	\$ 11,189,366
Tuition	4,494	2,424	104,705	-	-	111,623
Investment earnings	37,010	26,536	33,369	-	-	96,915
Community services	-	-	94,895	-	-	94,895
Other	567,060	1,305,932	53,519	37,727	83,074	2,047,312
Total local sources	921,814	8,222,399	4,275,097	37,727	83,074	13,540,111
State sources	1,435,354	3,086,854	382,464	-	76,878	4,981,550
Federal sources	382,374	3,280,642	153,000	2,633,297	-	6,449,313
Incoming transfers and other	75,000	31,149	-	-	-	106,149
Total revenues	2,814,542	14,621,044	4,810,561	2,671,024	159,952	25,077,123
EXPENDITURES:						
Current:						
Instruction:						
Basic	1,215,440	-	-	-	-	1,215,440
Added needs	-	4,309,838	2,657,912	-	-	6,967,750
Supporting services:						
Pupil	134,596	2,777,966	153,000	-	-	3,065,562
Instruction	781,767	1,106,867	-	-	-	1,888,634
General administration	188,727	145,723	191,422	-	-	525,872
School administration	-	377,473	434,699	-	-	812,172
Business services	59,834	495,840	160,524	-	-	716,198

See notes to financial statements

		Special revenue			Other nonmajor governmental funds	Total governmental funds
	General Fund	Special education fund	Technical education fund	Cooperative programming fund		
EXPENDITURES (Concluded):						
Operations and maintenance	\$ 88,439	\$ 505,983	\$ 718,733	\$ -	\$ -	\$ 1,313,155
Math/science program	-	-	-	-	198,802	198,802
Transportation	-	959,264	-	-	-	959,264
Central services	218,285	132,878	-	-	-	351,163
Community service activities	186,661	151,087	293,457	2,690,981	-	3,322,186
Outgoing transfers and other	-	2,280,360	-	-	-	2,280,360
Capital outlay	-	-	153,777	-	1,749	155,526
Debt service:						
Principal repayment	-	-	-	-	80,000	80,000
Interest	-	-	-	-	11,196	11,196
Total expenditures	<u>2,873,749</u>	<u>13,243,279</u>	<u>4,763,524</u>	<u>2,690,981</u>	<u>291,747</u>	<u>23,863,280</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(59,207)</u>	<u>1,377,765</u>	<u>47,037</u>	<u>(19,957)</u>	<u>(131,795)</u>	<u>1,213,843</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers from other funds	-	-	-	-	157,618	157,618
Operating transfers to other funds	(102,900)	(22,799)	(31,919)	-	-	(157,618)
Total other financing sources (uses)	<u>(102,900)</u>	<u>(22,799)</u>	<u>(31,919)</u>	<u>-</u>	<u>157,618</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(162,107)</u>	<u>1,354,966</u>	<u>15,118</u>	<u>(19,957)</u>	<u>25,823</u>	<u>1,213,843</u>
FUND BALANCES:						
Beginning of year	<u>1,444,048</u>	<u>1,103,644</u>	<u>1,367,704</u>	<u>19,957</u>	<u>61,759</u>	<u>3,997,112</u>
End of year	<u>\$ 1,281,941</u>	<u>\$ 2,458,610</u>	<u>\$ 1,382,822</u>	<u>\$ -</u>	<u>\$ 87,582</u>	<u>\$ 5,210,955</u>

See notes to financial statements

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

Net change in fund balances total governmental funds **\$ 1,213,843**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(267,456)
Capital outlay	515,849

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	7,957
Accrued interest payable, end of the year	(6,791)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on debt	80,000
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Change in net assets of governmental activities	\$ 1,543,402
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**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Allegan Area Educational Service Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Allegan Area Educational Service Agency (the "District") is governed by the Allegan Area Educational Service Agency Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in two parts - invested in capital assets, net of related debt and unrestricted net assets.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary administrative fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *special education special revenue fund* which accounts for special education programs.

The *technical education special revenue fund* which accounts for technical education programs.

The *cooperative programming special revenue fund* which accounts for cooperative programs.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Concluded)

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its math and science program in a special revenue fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

Modified Accrual Method (Concluded)

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	0.1157
Special revenue funds:	
Special education fund	2.5297
Technical education fund	1.4763

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption and residential residences and property for resale, are recorded as expenditures when consumed or sold rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

6. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and capital projects funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2008, the District had the following investments.

Investment Type	Fair Value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$ 5,069	0.0027	AAAm	0.2%
MILAF External Investment pool - MIMAX	<u>2,522,086</u>	0.0027	AAAm	<u>99.8%</u>
Total fair value	<u><u>\$ 2,527,155</u></u>			<u><u>100%</u></u>
Portfolio weighted average maturity		<u><u>0.0027</u></u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. The pooled investment funds utilized by the District are the Michigan Investment Liquid Asset Funds (MILAF). These are external pooled investment funds of “qualified” investments for Michigan school districts. MILAF is not regulated nor are they registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$1,887,759 of the District's bank balance of \$2,087,759 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount after recording outstanding checks and other items is \$1,859,731.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts are reported in the financial statements as follows:

Cash - district-wide	\$ 1,859,731
Investments - district-wide	<u>2,527,155</u>
	<u><u>\$ 4,386,886</u></u>

NOTE 4 - RECEIVABLES FROM LOCAL DISTRICTS

The District purchased Data Warehouse software and Pinnacle Plus products on behalf of the local districts. Each participating local district capitalized and will repay their proportionate share based on a repayment schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - RECEIVABLES FROM LOCAL DISTRICTS (Concluded)

The following is a summary of the repayment schedule from the local districts.

Year ending June 30,	
2009	\$ 71,969
2010	71,970
2011	71,969
	<u>\$ 215,908</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Assets not being depreciated - land	\$ 391,509	\$ -	\$ -	\$ 391,509
Other capital assets:				
Buildings and improvements	8,365,177	388,910	-	8,754,087
Office and instructional equipment	1,621,732	126,939	-	1,748,671
Subtotal	9,986,909	515,849	-	10,502,758
Accumulated depreciation:				
Buildings and improvements	3,714,804	198,286	-	3,913,090
Office and instructional equipment	994,850	69,170	-	1,064,020
Total accumulated depreciation	4,709,654	267,456	-	4,977,110
Net other capital assets	5,277,255	248,393	-	5,525,648
Net capital assets	<u>\$ 5,668,764</u>	<u>\$ 248,393</u>	<u>\$ -</u>	<u>\$ 5,917,157</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$267,456. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2008, the District has no outstanding notes payable. During the current year the District took out a note payable in the amount of \$1,250,000 with an interest rate of 3.90% that matured January 31, 2008.

Balance June 30, 2007	Additions	Payment	Balance June 30, 2008
\$ -	\$ 1,250,000	\$ 1,250,000	\$ -

NOTE 7 - LONG-TERM DEBT

The District issues bonds to provide funds for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2001 general obligation bonds - limited tax bonds (face amount \$650,000) due in annual installments ranging from \$55,000 to \$60,000 through November 1, 2011, with interest at 4.375% to 4.6%	\$ 175,000
1998 limited obligation bonds (Durant bonds) (face amount \$324,401) due in annual installments ranging from \$16,446 to \$21,744 through May 15, 2013 with interest at 4.76%. Certain state aid payments are security used to pay these bonds.	132,959
Total general long-term debt	\$ 307,959

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term obligations as of June 30, 2008, including interest of \$42,524 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 55,000	\$ 7,836	\$ 62,836
2010	78,054	10,157	88,211
2011	78,913	6,627	85,540
2012	19,813	2,967	22,780
2013	54,435	13,902	68,337
2014	21,744	1,035	22,779
	<u>\$ 307,959</u>	<u>\$ 42,524</u>	<u>\$ 350,483</u>

Interest expense (all funds) for the year ended June 30, 2008 was approximately \$4,500.

At June 30, 2008, net assets of \$0 are available in the debt service fund to service the general obligation debt.

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2008.

Long-term debt, June 30, 2007	\$ 387,959
Deductions:	
Bond principal payments	<u>80,000</u>
Long-term debt, June 30, 2008	307,959
Less current portion	<u>(55,000)</u>
	<u>\$ 252,959</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and due to other funds at June 30, 2008 are as follows:

	Due from other funds	Due to other funds
General fund	\$ -	\$ 687,507
Special revenue funds:		
Special education fund	1,265,157	-
Cooperative programming fund	-	228,678
Technical education fund	-	408,613
Math/science fund	59,641	-
	<u>\$ 1,324,798</u>	<u>\$ 1,324,798</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll through September 2007 and 16.72% effective October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were \$1,614,715, \$1,953,256 and \$1,578,341, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits and post-employment benefits which is the responsibility of the State of Michigan.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

The District is self insured for dental and vision coverage. The current year expense for June 30, 2008 was \$139,591 for dental and \$26,472 for vision coverages. A liability for incurred and unreported benefits is not considered material.

NOTE 11 - TRANSFERS

The general fund transferred \$36,478 to the debt service fund and \$66,422 to the special revenue math & science fund, the special education fund transferred \$22,799 to the debt service fund and the technical education fund transferred \$31,919 to the debt service fund. The transfer to special revenue math & science fund was to provide funding. The transfer to the debt service fund was to provide resources for debt service payments for the current year. Similar transfers are expected in future years.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 907,769	\$ 876,893	\$ 921,814	\$ 44,921
State sources	1,575,333	1,435,946	1,435,354	(592)
Federal sources	459,786	384,140	382,374	(1,766)
Incoming transfers and other	-	75,000	75,000	-
Total revenues	<u>2,942,888</u>	<u>2,771,979</u>	<u>2,814,542</u>	<u>42,563</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	<u>2,274,704</u>	<u>1,276,377</u>	<u>1,215,440</u>	<u>60,937</u>
Supporting services:				
Pupil	-	141,728	134,596	7,132
Instructional staff	-	819,131	781,767	37,364
General administration	203,035	193,236	188,727	4,509
Business	239,776	44,794	59,834	(15,040)
Operation/maintenance	94,213	100,027	88,439	11,588
Central	-	220,713	218,285	2,428
Total supporting services	<u>537,024</u>	<u>1,519,629</u>	<u>1,471,648</u>	<u>47,981</u>
Community services	<u>234,071</u>	<u>286,270</u>	<u>186,661</u>	<u>99,609</u>
Outgoing transfers and other transactions	<u>246,435</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>3,292,234</u>	<u>3,082,276</u>	<u>2,873,749</u>	<u>208,527</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(349,346)</u>	<u>(310,297)</u>	<u>(59,207)</u>	<u>251,090</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	-	(86,606)	(102,900)	(16,294)
Total other financing uses	<u>-</u>	<u>(86,606)</u>	<u>(102,900)</u>	<u>(16,294)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (349,346)</u>	<u>\$ (396,903)</u>	<u>(162,107)</u>	<u>\$ 234,796</u>
FUND BALANCE:				
Beginning of year			<u>1,444,048</u>	
End of year			<u>\$ 1,281,941</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 7,086,427	\$ 8,176,702	\$ 8,222,399	\$ 45,697
State sources	2,213,263	3,086,852	3,086,854	2
Federal sources	4,064,104	3,368,161	3,280,642	(87,519)
Incoming transfers and other	-	51,154	31,149	(20,005)
Total revenues	13,363,794	14,682,869	14,621,044	(61,825)
EXPENDITURES:				
Current:				
Instruction:				
Added needs	3,365,071	4,311,775	4,309,838	1,937
Supporting services:				
Pupil	3,290,573	2,901,575	2,777,966	123,609
Instructional staff	29,000	1,125,049	1,106,867	18,182
General administration	1,326,899	144,203	145,723	(1,520)
School administration	487,637	377,730	377,473	257
Business services	328,107	497,805	495,840	1,965
Operation/maintenance	527,755	531,632	505,983	25,649
Pupil transportation	914,516	963,638	959,264	4,374
Central services	-	118,507	132,878	(14,371)
Total supporting services	6,904,487	6,660,139	6,501,994	158,145
Community services	108,501	89,055	151,087	(62,032)
Debt services	22,799	-	-	-
Outgoing transfers and other transactions	2,905,527	2,306,324	2,280,360	25,964
Total expenditures	13,306,385	13,367,293	13,243,279	124,014
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	57,409	1,315,576	1,377,765	62,189
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	-	(22,799)	(22,799)	-
Total other financing uses	-	(22,799)	(22,799)	-
NET CHANGE IN FUND BALANCE	\$ 57,409	\$ 1,292,777	1,354,966	\$ 62,189
FUND BALANCE:				
Beginning of year			1,103,644	
End of year			<u>\$ 2,458,610</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
TECHNICAL EDUCATION FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 4,231,042	\$ 4,256,384	\$ 4,275,097	\$ 18,713
State sources	427,685	444,167	382,464	(61,703)
Federal sources	148,000	153,000	153,000	-
Total revenues	4,806,727	4,853,551	4,810,561	(42,990)
EXPENDITURES:				
Current:				
Instruction:				
Added needs	2,911,399	2,624,656	2,657,912	(33,256)
Supporting services:				
Pupil	226,064	153,000	153,000	-
General administration	184,708	176,689	191,422	(14,733)
School administration	333,524	437,652	434,699	2,953
Business	140,924	151,146	160,524	(9,378)
Operation/maintenance	575,183	691,393	718,733	(27,340)
Total supporting services	1,460,403	1,609,880	1,658,378	(48,498)
Community services	269,793	261,316	293,457	(32,141)
Capital outlay		140,621	153,777	(13,156)
Outgoing transfers and other transactions	30,095	-	-	-
Total expenditures	4,671,690	4,636,473	4,763,524	(127,051)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	135,037	217,078	47,037	(170,041)
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	-	(30,095)	(31,919)	(1,824)
Total other financing uses	-	(30,095)	(31,919)	(1,824)
NET CHANGE IN FUND BALANCE	<u>\$ 135,037</u>	<u>\$ 186,983</u>	15,118	<u>\$ (171,865)</u>
FUND BALANCE:				
Beginning of year			1,367,704	
End of year			<u>\$ 1,382,822</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COOPERATIVE PROGRAMMING FUND
YEAR ENDED JUNE 30, 2008**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
REVENUES:				
Local sources	\$ -	\$ 97,609	\$ 37,727	\$ (59,882)
Federal sources	<u>2,500,358</u>	<u>2,839,981</u>	<u>2,633,297</u>	<u>(206,684)</u>
Total revenues	<u>2,500,358</u>	<u>2,937,590</u>	<u>2,671,024</u>	<u>(266,566)</u>
EXPENDITURES:				
Community services	<u>2,500,358</u>	<u>2,937,590</u>	<u>2,690,981</u>	<u>246,609</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(19,957)	<u>\$ (19,957)</u>
FUND BALANCE:				
Beginning of year			<u>19,957</u>	
End of year			<u>\$ -</u>	

ADDITIONAL INFORMATION

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2008**

	Special revenue Math & Science	Debt service	Total nonmajor governmental funds
ASSETS			
ASSETS:			
Accounts receivable	\$ 30,161	\$ -	\$ 30,161
Due from other governmental units	13,984	-	13,984
Due from other funds	59,641	-	59,641
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 103,786	\$ -	\$ 103,786
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 8,112	\$ -	\$ 8,112
Accrued salaries and related items	4,221	-	4,221
Deferred revenue	3,871	-	3,871
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	16,204	-	16,204
	<hr/>	<hr/>	<hr/>
FUND BALANCES:			
Unreserved, undesignated	87,582	-	87,582
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 103,786	\$ -	\$ 103,786
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2008**

	Special revenue Math & Science	Debt service	Total nonmajor governmental funds
REVENUES:			
Local sources:			
Other	\$ 83,074	\$ -	\$ 83,074
State sources	76,878	-	76,878
Total revenues	159,952	-	159,952
EXPENDITURES:			
Support services:			
Math/science program	198,802	-	198,802
Capital outlay	1,749	-	1,749
Debt service:			
Principal repayment	-	80,000	80,000
Interest expense	-	11,196	11,196
Total expenditures	200,551	91,196	291,747
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(40,599)	(91,196)	(131,795)
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	66,422	91,196	157,618
NET CHANGE IN FUND BALANCES	25,823	-	25,823
FUND BALANCES:			
Beginning of year	61,759	-	61,759
End of year	\$ 87,582	\$ -	\$ 87,582

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2008

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Timothy J. Orians
Dennis D. Theis
James A. McNeeley

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Allegan Area Educational Service Agency

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Area Educational Service Agency as of and for the year ended June 30, 2008, which collectively comprise Allegan Area Educational Service Agency's basic financial statements and have issued our report thereon dated November 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan Area Educational Service Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Allegan Area Educational Service Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the service agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the service agency's financial statements that is more than inconsequential will not be prevented or detected by the service agency's internal control. We consider the deficiencies described as 2008-1 and 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2008-01 and 2008-02, are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan Area Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Allegan Area Educational Service Agency in a separate letter dated November 24, 2008.

Allegan Area Educational Service Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Allegan Area Educational Service Agency's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Education, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

November 24, 2008

Mayer, Costenizer & Ellis, P.C.



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Allegan Area Educational Service Agency

Compliance

We have audited the compliance of Allegan Area Educational Service Agency with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Allegan Area Educational Service Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Allegan Area Educational Service Agency's management. Our responsibility is to express an opinion on Allegan Area Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allegan Area Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan Area Educational Service Agency's compliance with those requirements.

In our opinion, Allegan Area Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Allegan Area Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan Area Educational Service Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Allegan Area Educational Service Agency's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Agency's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Area Educational Service Agency as of and for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan Area Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamay, Costenusan & Ellis, P.C.

November 24, 2008

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/07	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/08
<u>U.S. Department of Labor:</u>								
Passed through Area Community Services Employment and Training Council:								
Employment Services	17.207	ES-135-05	\$ 494,393	\$ (15,953)	\$ 104,676	\$ -	\$ 15,953	\$ -
		ES-135-06	676,423	145,269	676,423	262,550	117,281	-
		ES-135-07	698,136	-	-	434,009	698,136	264,127
Total CFDA #17.207			1,868,952	129,316	781,099	696,559	831,370	264,127
Workforce Investment Act Cluster:								
Workforce Investment Act Adult Program	17.258	AC-142-06	51,007	12,949	48,195	12,949	-	-
		AC-142-07	279,290	-	-	211,132	279,290	68,158
		AC-133-06	30,000	5,023	38,637	5,023	-	-
		AC-133-07	111,316	-	-	57,281	68,717	11,436
Total CFDA #17.258			471,613	17,972	86,832	286,385	348,007	79,594
Workforce Investment Act Youth Activities	17.259	AC-053-06	318,400	88,586	310,881	88,586	-	-
		AC-053-07	300,200	-	-	228,089	300,200	72,111
Total CFDA #17.259			618,600	88,586	310,881	316,675	300,200	72,111
Workforce Investment Act Dislocated Workers	17.260	AC-132-06	562,163	147,670	586,471	147,670	-	-
		AC-132-07	613,260	-	-	276,935	303,298	26,363
		AC-144-06	60,577	13,931	60,577	13,931	-	-
		AC-144-07	67,208	-	-	22,785	65,720	42,935
Total CFDA #17.260			1,303,208	161,601	647,048	461,321	369,018	69,298
Total Workforce Investment Act Cluster			2,393,421	268,159	1,044,761	1,064,381	1,017,225	221,003

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/07	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/08
<u>U.S. Department of Labor (Concluded):</u>								
Passed through Area Community Services Employment and Training Council (Concluded):								
Incumbent Worker Program	17.267	IW-03-06	\$ 34,209	\$ 12,178	\$ 34,209	\$ 12,178	\$ -	\$ -
Incumbent Worker Program		IW-03-07	34,500	-	-	9,226	28,210	18,984
Total CFDA #17.267			68,709	12,178	34,209	21,404	28,210	18,984
Total U.S. Department of Labor			4,331,082	409,653	1,860,069	1,782,344	1,876,805	504,114
<u>U.S. Department of Education:</u>								
Passed through State Department of Education:								
Title I Part D	84.013	081700-0708	56,394	-	53,008	56,394	56,394	-
Title II	84.367	080520-0708	435	-	-	435	435	-
Title V	84.298	080250-0708	407	-	-	407	407	-
Special Education Cluster:								
IDEA	84.027	070450-0607	2,731,747	524,341	2,731,750	524,341	-	-
		080450-0708	2,778,184	-	-	2,341,752	2,771,599	429,847
		070490-TS	70,000	19,478	70,000	19,478	-	-
		080490-TS	60,000	-	-	42,750	60,000	17,250
		080440-0708	1,120	-	-	-	1,120	1,120
		080440-0708A	8,000	-	-	-	680	680
		080450-0708	50,000	-	-	50,000	50,000	-
Total CFDA #84.027			5,699,051	543,819	2,801,750	2,978,321	2,883,399	448,897

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Pass-through number</u>	<u>Award amount</u>	<u>Accrued (deferred) 7/1/07</u>	<u>Prior year expenditures (memorandum only)</u>	<u>Current year receipts</u>	<u>Current year expenditures</u>	<u>Accrued (deferred) 6/30/08</u>
<u>U.S. Department of Education (Concluded):</u>								
Passed through State Department of Education (Concluded):								
Special Education grants to states	84.173	080460-0708	\$ 94,975	\$ -	\$ -	\$ 94,975	\$ 94,975	\$ -
Total Special Education Cluster			5,794,026	543,819	2,801,750	3,073,296	2,978,374	448,897
Vocational Education	84.048	9213	147,000	66,157	147,000	66,157	-	-
		9213	153,000	-	-	153,000	153,000	-
Total CFDA #84.048			300,000	66,157	147,000	219,157	153,000	-
Infants/Toddlers	84.181	071340-190	177,454	4,628	177,455	4,628	-	-
		081340-190	169,993	-	-	169,990	169,990	-
Total CFDA #84.181			347,447	4,628	177,455	174,618	169,990	-
Even Start Early Education	84.213	080390-D0825CES	225,000	-	225,000	199,454	225,000	25,546
Vocational Education	84.243	2713-0607	45,853	34,041	45,795	34,041	-	-
		2713-0708	36,546	-	-	36,546	36,546	-
Total CFDA #84.243			82,399	34,041	45,795	70,587	36,546	-
Passed through Michigan Jobs Commission:								
Rehabilitation Services	84.126	N/A	232,489	9,746	30,000	9,746	-	-
Total U.S. Department of Education			7,038,597	658,391	3,480,008	3,804,094	3,620,146	474,443

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Pass-through number</u>	<u>Award amount</u>	<u>Accrued (deferred) 7/1/07</u>	<u>Prior year expenditures (memorandum only)</u>	<u>Current year receipts</u>	<u>Current year expenditures</u>	<u>Accrued (deferred) 6/30/08</u>
<u>U.S. Department of Health and Human Services:</u>								
Passed through Family Independence Agency								
0-3 Secondary Prevention	93.556	CTFPR05-03001	\$ 116,583	\$ 23,110	\$ 108,263	\$ 33,050	\$ 9,940	\$ -
		CTFPR05-03001-4	128,374	-	-	61,434	75,096	13,662
Total CFDA #93.556			244,957	23,110	108,263	94,484	85,036	13,662
Passed through the Area Community Services Employment and Training Council:								
Work First	93.558	WR-010-06	827,006	222,622	644,601	400,511	177,889	-
		WR-010-07	827,006	-	-	406,101	509,712	103,611
			1,654,012	222,622	644,601	806,612	687,601	103,611
0-3 Secondary Prevention	93.558	CTFPR06-03001	22,704	4,500	21,083	4,500	-	-
		CTFPR06-03001	22,704	-	-	11,964	14,624	2,660
			45,408	4,500	21,083	16,464	14,624	2,660
FIA-CAN	93.558	CAN-06-03001-2	88,969	11,143	88,969	11,143	-	-
		CAN-06-03001-3	72,961	-	-	39,884	57,714	17,830
			161,930	11,143	88,969	51,027	57,714	17,830
Total CFDA # 93.558			1,861,350	238,265	754,653	874,103	759,939	124,101

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Pass-through number</u>	<u>Award amount</u>	<u>Accrued (deferred) 7/1/07</u>	<u>Prior year expenditures (memorandum only)</u>	<u>Current year receipts</u>	<u>Current year expenditures</u>	<u>Accrued (deferred) 6/30/08</u>
<u>U.S. Department of Health and Human Services (Concluded):</u>								
Passed through the Tuscola Intermediate School District:								
Medicaid Health Services	93.778	N/A	\$ 11,339	\$ 5,749	\$ 11,339	\$ 5,749	\$ -	\$ -
Medicaid Administrative Outreach		N/A	75,042	-	-	75,042	75,042	-
Total U.S. Department of Health and Human Services			2,192,688	267,124	874,255	1,049,378	920,017	137,763
<u>U.S. Department of Justice:</u>								
Passed through Area Community Services Employment and Training Council:								
Michigan Prison Re-Entry Initiative Pilot Site								
Comprehensive Re-Entry Plan	16.202	MPRI 06-07	60,309	-	-	27,985	32,345	4,360
TOTAL FEDERAL AWARDS			\$ 13,622,676	\$ 1,335,168	\$ 6,214,332	\$ 6,663,801	\$ 6,449,313	\$ 1,120,680

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS-THROUGH AMOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Due to (from) subrecipient 7/1/07</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient 6/30/08</u>
WIA summer youth: WIA-053-05	17.259					
Passed through to: Allegan Public Schools		\$ -	\$ 30	\$ 2,114	\$ 2,114	\$ -
Total WIA summer youth passed through to subrecipients		<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 2,114</u>	<u>\$ 2,114</u>	<u>\$ -</u>
WF jet tuition WR-010-07	93.558					
Passed through to: Allegan Public Schools		\$ -	\$ -	\$ 4,686	\$ 4,686	\$ -
Total WIA summer youth passed through to subrecipients		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,686</u>	<u>\$ 4,686</u>	<u>\$ -</u>
PL-94-142 Preschool Incentive: 060460/1	84.173					
Passed through to:						
Allegan Public Schools		\$ -	\$ 9,902	\$ 5,669	\$ 5,669	\$ -
Fennville Public Schools		-	11,738	17,422	17,422	-
Hopkins Public Schools		-	7,836	6,791	6,791	-
Otsego Public Schools		-	7,401	10,040	10,040	-
Plainwell Public Schools		-	17,073	18,603	18,603	-
Wayland Public Schools		-	9,518	12,402	12,402	-
Total PL-94-142 Preschool Incentive passed through to subrecipients		<u>\$ -</u>	<u>\$ 63,468</u>	<u>\$ 70,927</u>	<u>\$ 70,927</u>	<u>\$ -</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS-THROUGH AMOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Allegan Area Educational Service Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciled with the amounts presented in the preparation of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. CFDA Programs Special Education Cluster #84.027 and #84.173 were audited as the major programs representing 46% of expenditures.
2. The threshold for distinguishing Type A and B programs was \$300,000.
3. The expenditures on the schedule of expenditures of federal awards do not include local match.
4. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A and other applicable reports).
5. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
6. Federal expenditures per the financial statements equals expenditures per the Schedule of Expenditures of Federal Awards.
7. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Allegan Area Educational Service Agency provided federal awards to subrecipients reported in the enclosed schedule of pass through amounts.
8. Federal revenue per financial statements \$ 6,449,313

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

➤ Material weakness(es) identified? _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or</u>
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section II – Financial Statement Findings

Finding 2008-1 Considered a significant deficiency

Criteria: Numerous audit adjustments were proposed by the external auditor and accepted and recorded by the client.

Condition: Adjustments were not made to accurately reflect the transactions taking place at year end. All entries proposed by the external auditors were recorded and included in the June 2008 audit report.

Context: Failure to make adjustments increases the risk that the financial information will be misstated. The Service Agency did implement a new accounting software system during the year. The Service Agency also experienced management turnover during the year. This did place extra time requirements on staff implementing the new system.

Effect: Inaccurate financial information may be used for management decisions and reporting.

Cause: Lack of review by the staff and management of the accounting transactions that have occurred at year end.

Recommendation: The Service Agency should review year end transactions and record journal entries for any transactions not recorded.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Finding 2008-2 Considered a significant deficiency

Criteria: During the year, month-end reconciliations of certain asset and liability accounts, as well as federal grant accounts, and payroll tax return reconciliations to the general ledger were not completed in a timely and accurate manner generally considered to be within 30 days of month-end. This resulted in year-end adjustments to several accounts.

Condition: During the year, various accounts were not adjusted and reviewed monthly. At year end June 30, 2008, material asset and liability accounts have been reconciled and adjusted where appropriate.

Context: Failure to reconcile accounts monthly, including federal grant accounts, and payroll tax returns increases the risk financial information will be materially misstated. The Service Agency did implement a new accounting software system during the year. The Service Agency also experienced management turnover during the year. This did place extra time requirements on staff implementing the new system.

Effect: Inaccurate interim financial information may be used for management decisions and reporting.

Cause: Completion of reconciliations primarily in the area of accounts receivable, accounts payable, accrued liabilities and revenue on a monthly basis was not completed.

Recommendation: The Service Agency should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs for the year ending June 30, 2008.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

There were no findings for the prior two years.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis
James A. McNeeley

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

November 24, 2008

To the Board of Education
Allegan Area Educational Service Agency

In planning and performing our audit of the financial statements of Allegan Area Educational Service Agency as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Allegan Area Educational Service Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Service Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated November 24, 2008 on the financial statements of Allegan Area Educational Service Agency. Our comments are summarized as follows.

PRIOR YEAR COMMENTS

Overview - Numerous comments were addressed during the year. This letter identifies the comments which have been implemented and others which were addressed but not fully implemented during the year.

We have issued a separate report identifying significant deficiencies which need to be addressed.

Grant Expenditure Reconciliation

Status: The grant expenditure reconciliation process required many adjustments at year end. This comment is included in the additional reports required by *OMB Circular A-133 Schedule of Findings and Questioned Costs* as a significant deficiency.

Accounting System

Status: Allegan Area Educational Service Agency underwent a complete software conversion as well as had turnover of the superintendent and assistant superintendent of non-instructional services during the year. We recommend all procedures be reviewed and updated as appropriate for changes in staff roles as well as process modifications for the new software. All agreements should be reviewed for necessary renewals and/or revisions, including rental agreements.

CURRENT YEAR COMMENTS

Overview

During the current fiscal year end, the Service Agency experienced significant turnover of key administrators while implementing a new accounting software system required because the previous system was no longer supported. In addition the Service Agency expanded its services assisting certain local districts in accounting primarily, Glenn Public School, Outlook Academy, and Fennville Public Schools. These circumstances resulted in additional work to be performed without additional staffing. As a result of these circumstances and the new auditing standards we were required to follow, we noted the following:

Receipts Collected On-Site

Cash and check receipts received through the mail by Allegan Area Educational Service Agency are opened by the receptionist and recorded in the Access database. During the course of our fieldwork, we noted that the procedure of maintaining an initial cash receipt listing is not followed for funds collected at locations other than the business office. We recommend an initial cash receipts listing be maintained for all receipts. Reconciliation should then be completed during the bank reconciliation process, comparing the combined initial listings to the bank deposit. Implementing the current procedure at all locations collecting funds will provide additional assurance on revenue, increase controls over cash, as well as ease the reconciliation process.

Accounting Manual Needed

As a result of the computer software conversion, we noted the Service Agency does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties. The manual should include:

- An organizational chart,
- Job descriptions, outlining duties and responsibilities,
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions,
- A chart of accounts with detailed explanation of the items to be included therein, and
- Any other documents or forms for which uniformity of use is desired.

We recommend the Service Agency revise the current accounting policies and procedures manual to include all processes implemented with the new software. In the process of updating the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.

Payroll procedures

Our testing in this area did not indicate any discrepancies. However, we would recommend the following control changes.

Currently, the payroll clerk sets up a new employee and all pay rate changes. We recommend a review of the changes be documented by someone other than the individual inputting the change; a periodic review of new employees added to the payroll system to improve controls over adding new employees to the system; a more formalized documentation procedure for reviewing payroll and related transfers prior to electronic submission or mailing and distribution; and, that payroll not be backed up on the local hard drive.

Disaster Recovery Plan

The Service Agency utilizes a third party service provider to host its primary student and financial applications. Despite this, the Service Agency has a number of applications and corresponding data that are maintained by the Service Agency. While the Service Agency performs daily backups of these systems, we recommend a formal disaster recovery plan be developed and documented for its in-house applications. We understand the third party service provider has updated and documented its disaster recovery procedures during the current year.

Training

During the year, limited training on the new software system was conducted. This has resulted in numerous inefficiencies and inability to perform procedures in a timely and efficient manner.

We recommend the Director of Finance develop a training plan to be implemented during the current fiscal year.

Password and Access Controls Review

The Service Agency has not reviewed all of its new password policies and access controls since the new Director of Finance has been hired.

We recommend these policies and controls be reviewed and implemented during the current fiscal year.

Michigan Department of Education Chart of Accounts and Budget Format

During the computer conversion, the Service Agency's chart of accounts was amended and changed. During our audit we noted certain inconsistencies in the chart of account numbering system. In addition, we noted the Service Agency's current budget format does not strictly comply with the Michigan Department of Education School Accounting Manual format.

We recommend the chart of accounts be reviewed for consistency with the state chart of accounts; we also recommend future budget amendments utilize the Michigan Department of Education preferred budget format.

Month-end Procedures Checklist

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the Service Agency's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided the Service Agency personnel with a month-end procedures checklist which can be customized further for the Service Agency. The purpose of this checklist is to provide the Service Agency personnel with a centralized list of required month-end procedures, as well as a place to document who completed the procedure, and who reviewed the procedure performed.

We recommend the Service Agency consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures, and clearly document when and by whom the procedure was performed and reviewed.

Uninsured Bank Deposits

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). The Service Agency may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

This report is intended solely for the information and use of Allegan Area Educational Service Agency, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costenaro & Ellis, P.C.



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November 24, 2008

To the Board of Education
Allegan Area Educational Service Agency

We have audited the financial statements of Allegan Area Educational Service Agency for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Allegan Area Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Allegan Area Educational Service Agency's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Allegan Area Educational Service Agency's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Allegan Area Educational Service Agency's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Allegan Area Educational Service Agency's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 10, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan Area Educational Service Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Service Agency during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management; however we did experience certain difficulties in performing and completing our audit. Two of the reasons for the delay were the Service Agency's implementation of the new accounting software and significant turnover during the year.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In our judgment, some of the adjustments we proposed, which were recorded by the Service Agency, either individually or in the aggregate, indicate matters that could have a significant effect on the Service Agency's financial reporting process. There were numerous adjustments proposed during the audit. All entries proposed were accepted and recorded by the Service Agency.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 24, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Service Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Service Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Audit Committee, Board of Education and management of Allegan Area Educational Service Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "M. Costinisan & E. Ellis, P.C.", is written over a horizontal line.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
CORRECTIVE ACTION PLAN
JUNE 30, 2008
CONTACT PERSON: LISA BRADLEY
OVSERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Allegan Area Educational Service Agency respectfully submits the following corrective action plan for the year ended June 30, 2008.

Auditor: Maner, Costerisan & Ellis, P.C.
544 Cherbourg Drive, Suite 200
Lansing, Michigan 48917-5010

Audit Period: Year ended June 30, 2008

The findings from the June 30, 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Finding 2008-1

Recommendation: The District should review year end transactions and record journal entries for any transactions not recorded.

Action to be taken: We concur with the recommendation. We will review year end transactions to insure that they are recorded in the proper period. The implementation of the new accounting software system has been completed.

Finding 2008-2

Recommendation: The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts, federal grants and payroll tax returns on a timely basis. This will improve the accuracy of interim reporting.

Action to be taken: We concur with the recommendation. We have worked diligently to resolve all issues. We are currently in the process of instituting month-end closing procedures.